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opportunities of a widened market. As such the peddler should be recognized, while his wiles and trickeries should pass into oblivion.

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WASHINGTON NOTES

THE PACIFIC RAILWAYS DISSOLUTION

On February 6, the terms of the final settlement in the Union Pacific-Southern Pacific dissolution controversy were made public at the offices of the Pacific roads in New York City. In a general way, the elements of the plan mapped out with the approval of the authorities are as follows:

The purchase by the Union Pacific of the entire capital stock of the Central Pacific, consisting of \$67,275,500 par value of common and \$17,400,000 par value of preferred, for the sum of \$104,189,941, the cost at which it stands upon the books of the Southern Pacific Company. About \$84,675,500 of this amount was to have been paid in stock of the Southern Pacific Company held by Union Pacific at par, but legal difficulties having been found in the way, the plan was changed so that payment is to be made as follows, viz., \$126,650,000 par value—being the entire amount of stock of the Southern Pacific Company held by the Union Pacific—is to be offered to the stockholders, common and preferred, of the Union Pacific Company and stockholders of the Southern Pacific Company other than the Union Pacific and Oregon Short Line for subscription at 98½ per cent and accrued dividend. This offer is to be underwritten and subscribers are to receive the dividend payable April 1, 1913. The proceeds of \$84,675,500 of this stock, less the underwriting commission and expenses, is to be paid over to the Southern Pacific Company, together with \$5,449,000 of the Southern Pacific Company's 4 per cent gold bonds and \$14,065,441 in cash.

Vice-President Kruttschnitt, of the Southern Pacific Railway Co., in discussing the sale of the Central Pacific stock by the Southern Pacific Company, states that in his opinion and in that of the officers of the Southern Pacific Company, the net earning capacity of the Southern Pacific Company is not likely to be decreased as a result of this sale, and that its financial position is greatly strengthened by the payment to it of so large a sum in cash. While the directors have not decided what disposition to make of this money, a considerable part of it will be needed in the near future to pay for extensions, for equipment, and for additions and betterments which will materially add to its earning capacity. The amount is sufficient to take care of future requirements, without increase of fixed charges.

The proposed transaction evidently involves the raising of roughly \$100,000,000 in cash by the sale of stock. This stock would be distributed to existing holders of shares in the ratio of one to four, they being allowed to subscribe in that proportion if desired. The question whether they will do so has a somewhat serious aspect and involves a good many problems dependent for their solution upon market conditions, the policy of the Interstate Commerce Commission, and other factors. In all probability there will be some difficulty in carrying the transactions through with promptness, in which case the burden will necessarily fall back upon the underwriters. Meanwhile a good deal of doubt is expressed as to whether the operation has been worth while or not, there being a strong feeling that the results accomplished were hardly satisfactory, when the necessary disturbance of the values, the extent of government exertion, and other incidental sacrifices are considered. The situation if anything is less satisfactory than that which was brought about by the dissolution of the Standard Oil Co., and the American Tobacco Co., both of which have up to date been more or less futile, so far as the immediate restoration of competition in any appreciable measure is concerned. On the whole the settlement reinforces the belief that to get any good results from the anti-trust law it will be necessary to modify it drastically throughout.

THE TERMINATION OF THE MONEY TRUST HEARINGS

The closing of the so-called Money Trust hearings in Washington terminates an incident which is politically highly significant and which has been productive, economically, of considerable enlightenment, although not precisely in the way which had been expected. During the months of December and January, representative bankers have been questioned under oath. Including the witnesses who had appeared at the hearings of last summer, enough men have been cross-examined to make sure that such facts have been brought to the surface as were reasonably available within the scope indicated in the resolution under which the investigation was carried on. It is hardly likely, therefore, that in the near future there will be any repetition of this kind of investigation, unless it be for the purpose of ascertaining some special point which is not considered to have been fully developed in the course of the work already accomplished.

A summary review of the testimony given before the Money Trust committee seems to divide it into two classes: (1) that which relates to well-known facts regarding the national banking system—facts which for the most part are contained in the reports of the Comptroller of the

Currency and of other public officers; (2) that which relates to isolated incidents involving somewhat questionable transactions in which prominent figures have been involved. In the former class of testimony the facts which stand out prominently are those affecting the joint control of important national banks and trust companies, and those which have a bearing upon the reserve system under the national banking act and the control of the funds of country institutions which it renders possible. On both these points, the information already available was quite complete and satisfactory, so that it is doubtful whether the work done by the Money Trust committee has added anything of fresh interest to the discussion. As respects the second class of testimony, the investigation has disclosed some facts of current interest relative to financial operations and "stock market deals" that have a sensational appeal, and in some particulars throw light upon weak spots in existing national bank control. Probably the whole volume of information supplied in this way would be considered insignificant, if boiled down and stripped of generalities and extraneous details. In the aggregate, the actual information of all classes supplied by the investigation is, therefore, exceedingly small. Its value would be far from warranting the expenditure of even a small percentage of the time, money, and energy that have been put forth by the committee intrusted with the work.

The chief significance of the investigation, as is now apparent, is to be found in the stimulus it is believed to have given to the adoption of remedial legislation by Congress for the purpose of correcting certain elements in the national banking system that are believed to be detrimental. Probably the most striking of the proposals that seem to grow out of the agitation are the suggestion to incorporate stock exchanges, the proposed plan for inspection of banking institutions everywhere, no matter whether chartered under federal law or not, the suggestion that there be legislation against speculative practices of various kinds, including market manipulation and short sales of stocks, the demand for legislation intended to prevent the joint holding of control of national bank stocks and shares in state banks and trust companies, and the call for the strengthening of the national bank inspection service at a number of points. With these should probably be coupled the recommendation that Clearing Houses shall be incorporated and regulated by federal authority.

Of these plans for legislation none, with the possible exception of the scheme for supervising the doings of private banking houses, is new. Most of them have been urged again and again without result thus far.

There was never any prospect that any of them would be made law at the short session of Congress. Differences of opinion in the Banking and Currency Committee, the retirement of the chairman of that committee at the end of the session and the appointment of a successor in the new Congress, in conjunction with not a few alterations in the general personnel of the committee, made it improbable from the start that the more novel and radical of the suggestions would be acted upon. If, at the extra session of Congress, which meets April 1, it should be decided to include, in some bill for the reformation and improvement of the general banking conditions of the United States, a number of the more obvious changes suggested by members of this committee, it will be quite as much as can be expected as a result of its investigations.

THE OUTLOOK FOR BANKING REFORM

Hearings before the Banking and Currency Subcommittee of the House of Representatives, which has been engaged in studying the question of banking legislation, officially ended on February 17 with the testimony of Sir Edmund Walker of Toronto, Canada, and of Professor Royal Meeker, of Princeton University. The subcommittee has now substantially reached the end of its labors for the current session and it is therefore worth while to note what has been accomplished during the past winter. The results may be said to be about as follows: (1) the banking question has been revived in the public mind and it has been shown that the Democratic party is sufficiently interested to take an active share in the work of legislation; (2) the opinion of the community with respect to the details of a banking plan has been ascertained and it has been found that substitutes for the Aldrich bill, if properly developed, would be entirely acceptable; (3) President-elect Wilson has been sounded and induced to consider the banking question seriously as a subject requiring his early attention after taking office; (4) assent has been obtained on the part of congressional leaders to the consideration of the question at the special session provided the new President gives the word. This constitutes a decided degree of progress as compared with the condition of things existing during the campaign, when nothing whatever was said and no pledges were given with respect to action either now or in the future. As the situation has worked out, the further advance of the legislation desired is now entirely dependent upon President Wilson's attitude. If he decides that the step should be taken, and gives orders to that effect, the special session will undoubtedly see the passage of a more or less inclusive measure by the House of Representatives. As for the situation in the Senate, no satisfactory forecast

can yet be made. There is a body of Republicans in the upper chamber who are disposed to vote for any satisfactory bill that may be developed and whose aid may be useful should a measure be antagonized by some of the extreme radical Democrats. On the other hand, much will doubtless depend upon the organization of the Senate, and the attitude of the leaders there with respect to permitting the question to come up at all, or forwarding it in case it should actually be allowed to gain the floor. The position to be taken by the Progressive Republicans in the matter would also be of fundamental importance. It must therefore be expected that the legislation will be pressed at the outset in the House rather than in the Senate. In support of this policy would be the unquestionable fact that Mr. Wilson's influence will necessarily be a good deal larger in the House than it will in the upper chamber, both on account of his control of patronage and because of the fact that the majority of the Representatives will be new men in federal politics like himself, and hence not in any way identified with the old régime as has been the case in the Senate for so long a time. In fact to organize the Senate upon lines that will permit effective action on a program acceptable to the new administration is likely to prove a very serious problem owing to the continued presence of many Democrats allied to a former era who have held over because of the permanence of Democratic support in the southern states, and because their own lack of responsibility in Congress over a period of many years has enabled them in large measure to avoid criticism.

THE END OF THE TARIFF TESTIMONY

Tariff hearings were closed by the Ways and Means Committee of the House of Representatives on the last day of January, after practically a month of continuous work. The testimony taken covers fully as much ground as that which was presented to the committee four years ago, and in some respects is more detailed and specific than any that was offered at that time. Among the striking features of the hearings may be mentioned the following: (1) a disposition on the part of many producers to present modified schedules of duty to the committee, in the evident belief that such compromise proposals on their part were practically necessary, if it was intended to secure any degree of consideration at the hands of the committee itself. This was notable in the case of the cotton producers as well as of others who had previously stated that not the slightest retrogression from existing duties could be thought of if the industry was to be able to survive; (2) the develop-

ment of facts showing the existence of strong industrial combinations in many lines of business protected by high rates of duty, these being apparently the direct result of the overprotection enjoyed by the different manufacturers concerned in the combination; (3) an apparent willingness on the part of the members of the committee to listen to argument without subjecting the witnesses to open insult—a policy very different from that adopted four years ago; (4) an apparent inclination among committee members to revise not only the duties but the customs administrative act and the provisions now governing maximum and minimum and retaliatory rates. The plans of the Ways and Means Committee are to continue steady work in shaping a schedule of duties from now until the opening of the extra session, continuing of course if absolutely necessary beyond that date, which, it is announced, will fall on April 1. There remains open a question whether revision of the duties shall be made on a schedule-by-schedule basis, or whether it shall be the result of a joint and inclusive bill introduced in the old form, covering all the subjects dealt with in the tariff, as has been the practice in other periods of tariff revision. The latter plan is strongly desired by many of the old-line leaders in the Democratic party, but they have not thus far succeeded in securing the endorsement of the rank and file, many of whom are disposed to adhere to the schedule-by-schedule plan which has been so highly praised by members of both parties as a great reform in methods of tariff revision. As yet no absolute decision has been reached as to the rates to be incorporated in the new bill or bills. The obvious intention of the committee, however, is to adhere closely to the general level of rates established in the Underwood measures, partly for the sake of political consistency, and partly to save labor in revising and altering the duties already established. At certain points the political demand for innovations is so strong that it probably cannot be resisted. Thus far, however, there has manifestly been a strong indisposition to alter what has already been done.

PROSPECTS OF A FEDERAL INCOME TAX

The State Department having received, during the past month, information that more than enough states had ratified the income tax amendment to the constitution of the United States, that amendment now becomes part of the Constitution, and the power to incorporate an income tax into federal legislation is placed in the hands of Congress. The importance of this decision just at the present moment can scarcely be overestimated. The action comes at a time when a complete revision

of the tariff is being planned and when, therefore, the opportunity of fitting the income tax into the federal revenue system is very good. Probably at no time within recent years could the decision have been reached under conditions so certain to make it vital and operative as those now prevailing.

The revision of the tariff now under way would have been very greatly handicapped had there been no available means of getting supplementary income. True, such a means could have been found in the imposition of duties upon coffee and tea, or by the resort to stamp taxes, or by the use of the inheritance tax, all well-known and tested methods of raising revenue, but all thoroughly obnoxious to Democratic principles and subject to sharp attack on that score. It had been planned to revive the so-called "excise income tax" of last session but even that would have aided but little. The excise income tax was of doubtful constitutionality and even at the best was not expected to produce more than a very limited revenue—how limited comparatively few persons who have not closely analyzed the computations of the Ways and Means Committee can realize. Simultaneously with the revision of the tariff and with the realization that available sources of revenue were not very satisfactory, has developed a strong and obvious disposition in the House of Representatives to follow a policy of gross extravagance. Bills carrying extraordinary appropriations for many purposes have been running riot in Congress for weeks past despite the efforts of the leaders. The income tax will come in the nick of time to furnish their sponsors with a ready means of getting what they consider much-needed revenue. On the other hand, it needs to be remembered that the consciousness that this new source of revenue is in sight exerts a decidedly bad effect upon the minds of members. A good many who would not have ventured to urge given schemes of expenditure now unhesitatingly do so, notwithstanding that they know their action can be warranted only on the assumption that a very heavy revenue is to be realized from the proposed new tax. Thus the ratification of the constitutional amendment is not only providing desired income at a crucial moment, but is also stimulating the disposition to waste and dissipate the income already within reach.

The state of things likely to be produced by the new tax can be better understood from the fiscal standpoint if it is remembered that the total amount of revenue expected as a result of the income-tax section of the Wilson tariff bill, which was declared unconstitutional by the Supreme Court of the United States, was less than \$40,000,000. Incomes have grown very greatly since that time but the demand for a higher measure

of exemption has also grown, and will doubtless be satisfied. This must mean that the income tax will be levied only upon the decidedly higher classes or grades of income. An exemption of \$5,000 was made in the so-called excise income tax of last session, and it is not likely that the new exemption will be smaller than that. It may even be larger. There will moreover be practically an unavoidable necessity of repealing the corporation tax and re-embodiment in the new income measure. This will mean a \$30,000,000 deduction from present receipts. If the new tax provides \$30,000,000 to take the place of the loss of the corporation tax and \$50,000,000 of new income it will be doing a good deal better than most well-informed students expect. The estimate of yield under the excise income tax of last year was about \$50,000,000 (over and above the corporation tax), but it was generally admitted that no statistics warranting any such figure had been submitted. It would probably have been difficult to furnish any good argument in support of a yield greater than \$25,000,000 or \$30,000,000 from this new taxation. The income tax will undoubtedly be more productive, particularly because of the fact that there will be no necessity of disregarding many important forms of income in order to avoid the difficulty of unconstitutionality. But with a high exemption, the principle of self-assessment, and various other features, it seems improbable that a very large yield will be secured from an income tax based upon any rate that is at all likely of adoption.

The upshot of this whole matter is, therefore, that the tendency of the new income-tax plan will be to increase the disposition to spend money without in any corresponding degree raising the income-producing ability of the revenue system. The situation is already clearly apprehended by congressional leaders who have been very urgent in their recent requests to members to avoid committing themselves to the enormously costly policies of outlay upon which they have been working. Thus pensions, extravagant public buildings, large river and harbor enterprises, and many others are classified as falling within the groups of expenditure which the leaders are unwilling to countenance. Their view is that a conservative policy would dictate the development of a reasonable revenue system and the attainment of some experience under it before anything was done to exaggerate the already enormous expenditures of the National Government. It is already plain that the contest between these two elements, one tending toward economy, the other toward extravagance in federal expense, will be a leading factor in the new administration and one whose critical significance cannot be overlooked.